

FAQ- Questions on SONIA, €STR and CORRA

Q: What is SONIA?

SONIA stands for Sterling Overnight Index Average. SONIA is that it was first introduced in March 1997 and was later reformed in April 2018. In April 2017 the Working Group on Sterling Risk-Free Reference Rates (RFRWG), commissioned by the Bank of England (BoE), recommended that SONIA is to be the successor RFR to GBP LIBOR. SONIA is measured as the trimmed mean, rounded to four decimal places, of interest rates paid on eligible sterling denominated deposit transactions. The trimmed mean is calculated as the volume-weighted mean rate, based on the central 50% of the volume-weighted distribution of rates. The top and bottom 25% of transactions are trimmed.

Q: What is the timeline of the transition from LIBOR?

The RFRWG has released materials and recommendations for the transition to SONIA. The WG has encouraged SONIA to be the market convention instead of sterling LIBOR. To transition the cash market, the WG has published a [recommended timeline](#) for the loan market. The RFRWG recommends that:

- By the end of Q3 2020 lenders should be in a position to offer non-LIBOR linked products to their customers;
- After the end of Q3 2020 lenders, working with their borrowers, should include clear contractual arrangements in all new and re-financed LIBOR-referencing loan products to facilitate conversion ahead of end-2021, through pre-agreed conversion terms or an agreed process for renegotiation, to SONIA or other alternatives; and
- All new issuance of sterling LIBOR-referencing loan products that expire after the end of 2021 should cease by the end of Q1 2021.

Q: What are the key differences between LIBOR and SONIA?

LIBOR	SONIA
<ul style="list-style-type: none">• Unsecured rate.• Interbank funding market participants (panel banks).• Consensus-based; depends on expert judgements.• May be prone to the risk of manipulation.• Forward-looking rate with a term structure.• Built-in credit component based on credit conditions amongst panel banks.• \$500 million underlying transactions.• Not durable during stressed market conditions.	<ul style="list-style-type: none">• Unsecured rate.• Broad-array of Sterling money market participants.• Fully transaction-based.• Low risk of manipulation.• Backward looking overnight rate.• Historical credit mean/median adjustment relative to LIBOR needs to be added.• Historically, may have spot volatility, but once compounded, SONIA is more stable than GBP LIBOR.

Q: What is €STR?

The Working Group on Euro Risk Free Rates selected the Euro Short-term Rate (€STR) to replace EONIA and EUR LIBOR. €STR reflects the wholesale euro unsecured overnight borrowing costs of banks located in the euro area. €STR is administered by the European Central Bank (ECB) and was first published in October 2019. €STR is calculated as a volume-weighted trimmed mean rounded to the third decimal place. €STR is published on each business day at 8:00AM CET based on transactions conducted and settled on the previous business day (the reporting date “T”) with a maturity date of T+1. This is deemed to have been executed at arm’s length and thus reflect market rates in an unbiased way. €STR replaces EONIA in the Euro market. EONIA and EUR LIBOR will be discontinued but EU Countries will continue to remain a multi-rate environment with €STR and EURIBOR coexisting until 2024.

Q: What is CORRA/Enhanced CORRA?

The Canadian Alternative Reference Rate Committee (CARR) has proposed to enhance the existing Canadian Overnight Repo Rate Average (CORRA) as its candidate to eventually replace CDOR. CORRA was first published in 1997 and is a measure of the cost of Canadian dollar overnight general collateral funding in the repurchase agreement (repo) market. It is a risk-free overnight rate based on repo transactions. CORRA is calculated as the volume weighted average rate of overnight repo transactions, conducted on-screen through designated inter-dealer brokers (“IDBs”), which involve general (non-specific) Government of Canada Collateral. The Bank of Canada will be the administrator of enhanced CORRA and it will be published for the first time June 15, 2020. For enhanced CORRA, the lower volume-weighted 25th percentile is trimmed with the intent to exclude “specials” and just include general collateral. While the Bank of Canada will seek to promote the adoption of CORRA over CDOR by financial markets, Canada will remain a multi-rate jurisdiction.

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